



Business and the Economy

The 'Economy' is a word used to describe all the financial activity of a country: the production and sale of goods and services and the flow of money throughout the country.

Business is vital to the economy:

- Businesses provide goods and services to other businesses and the general public and employ people, giving salaries and wages.
- The public, in turn, spends its money, helping other businesses to make money.
- People who work pay taxes and National Insurance Contributions to the Government for public services.
- Businesses also generate money for the Government. They pay a percentage of their profits to the Government directly, in the form of Corporation Tax.
- Income Tax and National Insurance Contributions are major sources of income for the Government.
- The Government then uses its income for services like schools, health and transport and also to support businesses so they can continue to supply goods and services.
- It's easy to see that this activity can create a 'good' upward spiral, or a 'bad' downward spiral.

Starting a business

Businesses usually start with a person having a skill or a product that they think will be useful or wanted:

- They create a business plan to show how the business will work and grow.
- They either use their own money to start the business, take out a business loan or sell shares in the business to other people wanting to invest their money. Investors buy shares in the business in the hope that the business will be successful and generate a good income and that their shares will increase in value.

Most businesses start small but can grow to become large, international corporations earning billions of pounds each year. For example, entrepreneur Richard Branson started his business with very little money, selling records from a public phone booth. The Virgin Group Ltd is now worth over £5 billion and has branched into many different fields including travel, communications, health, music, publishing and even space tourism!

Business finance

Businesses, like all of us, have to budget sensibly, looking at income (e.g. money from sales and investments) and expenditure (e.g. employees' wages and salaries, manufacturing costs, marketing costs and paying company tax). Businesses always have to think about how to increase their profits too.

Competitors (other companies offering a similar service or product) can affect businesses, so they have to work to compete by:

- investing money in advertising campaigns persuading customers to buy their products rather than others'
- lowering prices to 'undercut' the competitors' prices
- making sure their products are better than what's already available
- offer rewards, deals and incentives to customers for buying their products, or better still... make sure their products 'fill a gap' in the market by offering something not yet available, something original!